

Report to the Cabinet

Meeting to be held on Thursday, 2 September 2021

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected:
(All Divisions);

Money Matters 2021/22 Position - Quarter 1

(Appendices 'A' - 'C' refer)

Contact for further information:

Angie Ridgwell, (01772) 536260, Chief Executive and Director of Resources,
angie.ridgwell@lancashire.gov.uk

Executive Summary

This report provides an update to Cabinet on the county council's 2021/22 revenue and capital financial position, as at the end of June 2021 and an updated medium term financial strategy (MTFS) covering the period 2022/23 to 2024/25.

There is ongoing and unprecedented uncertainty in relation to future local government funding and the financial impact of the COVID-19 emergency has exacerbated the problem.

Accordingly, significant assumptions are required to underpin our forecasts. While these can be made with a level of confidence in the current year, over the medium term, with limited information, we rely heavily on advice from national bodies, benchmarking and discussion with peers.

Whilst a multi-year Spending Review was originally expected at the end of 2020, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to COVID-19 and focus on supporting jobs. This means that the MTFS included in Appendix 'B' contains a number of assumptions due to there being no additional information available from the Government at this stage in the financial year.

Whilst the quarter 1 forecast presents an underspend of £5.219m for the current financial year, there remains a level of uncertainty about the longer-term impacts of the ongoing pandemic. The level of latent impact on demand for our services also remains unclear.

The current MTFS indicates an aggregated funding gap of £63.958m by 2024/25, an increase of £13.910m from the previously reported position in February but is largely

due to the inclusion of an additional financial year within the forecast. The forecast funding gap for 2022/23 is £34.826m which is an improved position of £2.669m due to increased levels of funding forecast in the next financial year, particularly from capital receipts.

In summary:

- (i) The 2021/22 revenue forecast outturn is £876.194m, representing a projected underspend of £5.219m (0.59%) of the agreed budget.
- (ii) The MTFS has been updated for our current expectations of levels of funding, savings delivery, demand and inflation.
- (iii) At Full Council in February 2021 the MTFS showed a deficit of £50.048m in 2023/24. The forecast now indicates a financial deficit of £63.958m by 2024/25.
- (iv) The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 3% of net budget, which is unchanged from the previously reported position.
- (v) The council is forecast to hold £180.340m of uncommitted transitional reserve at the end of the financial year. This is sufficient to meet the forecast gap for all of the years covered by the MTFS, 2022/23 to 2024/25.

Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast underspend of £5.219m on the revenue budget in 2021/22.
- (ii) **Note** the revised funding gap of £63.958m covering the period 2022/23 to 2024/25 as set out in the revised financial outlook forecast for the council.
- (iii) **Approve** the budget adjustments for 2021/22, and following years' changes, included in the revised MTFS.
- (iv) **Note** the contents of the county council's reserves position.
- (v) **Note** the revised 2021/22 capital delivery programme of £160.324m and the forecast outturn of £160.558m.

Background and Advice

The detailed reports present the quarter 1 position and are appended as follows:

- Appendix 'A' - the 2021/22 forecast revenue position.

- Appendix 'B' - revised medium term financial strategy for the period 2022/23 to 2024/25, including reserves position.
- Appendix 'C' - the 2021/22 re-profiled capital delivery programme and forecast outturn.

2021/22 Revenue Position as at 30th June 2021 (Appendix 'A')

A revenue underspend is currently forecast at £5.219m and represents a variance of 0.59% against the overall revenue budget of £881.413m. The forecast outturn position is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which, as always, is difficult to predict in some demand led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review. The focus will remain on continuing to tightly control and drive down costs wherever possible.

The savings that have been agreed to date are significant, with a total of £42.727m to be delivered in 2021/22. This is a combination of savings that were planned to be delivered in 2020/21 and were delayed due to the pandemic, and the budgeted savings agreed to be removed from the budget in 2021/22. As restrictions have largely been lifted and services return to providing services closer to the levels provided pre-pandemic there is renewed focus and activity in monitoring and delivering the savings that are built into the budget.

The medium term financial strategy (MTFS) and reserves position (Appendix 'B')

The previous updated MTFS reported to Full Council in February forecast a funding gap of £50.048m by 2023/24. The updated funding gap contained within the report is £63.958m by 2024/25 which is an increase of £13.910m from the previously reported position in February, but is largely due to the inclusion of an additional financial year within the forecast.

The value of the uncommitted transitional reserve is currently forecast to be £180.340m by the end of March 2022. This does not include the impact of the forecast underspend within the 2021/22 outturn position due to it being so early in the financial year. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps for financial years 2022/23 - 2024/25, but the intention is to identify further savings, thereby securing a sustainable financial position for the council.

Capital delivery programme for 2020/21 (Appendix 'C')

A 2020/21 capital delivery programme of £152.439m was agreed at Full Council in February 2021. This was based on the best forecast available at that point in time with the need to review and update to reflect the impact of the final 2020/21 outturn position and associated slippage and advance delivery, additions to the programme subsequently agreed by Cabinet and an updated assessment of deliverability within the year. The review has resulted in the 2021/22 capital delivery programme increasing to £160.324m by the end of quarter one with forecast delivery of £160.558m.

Consultations

Proposals will be subject to appropriate consultation where required.

Implications:

Risk management

The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The financial risks and opportunities that could affect the position outlined in the report primarily cover the following areas. Many of these risks equally present opportunities:

Level of Future Resources from Central Government

Risks remain in relation to the level of resources the council receives from the government in terms of support for the additional pressures as a result of the COVID-19 pandemic, revenue support grant, social care grant, business rates and the fairer funding settlement which has been delayed for a further year. At this point in time there is insufficient detailed information regarding the changes to be certain of the funding assumptions within the MTFS. As a result of these uncertainties we have modelled various scenarios on the most likely funding scenario. Future funding levels could therefore be higher or lower than currently forecast.

Demand

There is continued pressure on the council's budget, particularly around adult and children's social care, and the most up to date demand forecasts have been included. Any increase in demand above the current forecast will add additional pressure to future years and conversely reductions in demand will create underspends.

Inflation

A significant level of additional resource has been included in the MTFS, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the MTFS includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the national living wage.

Delivery

The MTFS assumes that agreed savings including those delayed as a result of COVID-19 will be delivered in the period 2021/22 to 2023/24. There are also a significant number of other factors, both internal and external, which may impact

upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

Legal

Please note that matters referred to in this financial forecast will be subject to council consideration where appropriate

List of Background Papers

Paper	Date	Contact/Tel
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None

Reason for inclusion in Part II, if appropriate

N/A